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8

FISCAL NOTE

STATE OF ALASKA
1991 LEGISLATIVE SESSION

BILL NO. SB 8

Revision Date: _____
Title: Annuity Program Amendments
Sponsor: Kerttula
Requestor: _____

Agency Affected: Revenue
BRU: Permanent Fund Dividend Division
Components: Permanent Fund Dividend
Division
COMPONENT SERIAL NO. 9 8 1

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 92	FY 93	FY 94	FY 95	FY 96	FY 97
OPERATING						
PERSONAL SERVICES	-0-	-0-	-0-	-0-	-0-	-0-
TRAVEL	-0-	-0-	-0-	-0-	-0-	-0-
CONTRACTUAL	15.0	15.0	15.0	15.0	15.0	15.0
SUPPLIES	-0-	-0-	-0-	-0-	-0-	-0-
EQUIPMENT	-0-	-0-	-0-	-0-	-0-	-0-
LANDS & STRUCTURES	-0-	-0-	-0-	-0-	-0-	-0-
GRANTS, CLAIMS	-0-	-0-	-0-	-0-	-0-	-0-
MISCELLANEOUS	-0-	-0-	-0-	-0-	-0-	-0-
TOTAL OPERATING	15.0	15.0	15.0	15.0	15.0	15.0
CAPITAL	-0-	-0-	-0-	-0-	-0-	-0-
REVENUE	-0-	-0-	-0-	-0-	-0-	-0-

FUNDING: (Thousands of Dollars)

GENERAL FUND	-0-	-0-	-0-	-0-	-0-	-0-
FEDERAL FUNDS	-0-	-0-	-0-	-0-	-0-	-0-
OTHER (RSA)	15.0	15.0	15.0	15.0	15.0	15.0
TOTAL	15.0	15.0	15.0	15.0	15.0	15.0

POSITIONS:

FULL-TIME	-0-	-0-	-0-	-0-	-0-	-0-
PART-TIME	-0-	-0-	-0-	-0-	-0-	-0-
TEMPORARY	-0-	-0-	-0-	-0-	-0-	-0-

Estimate of current year impact: None.

ANALYSIS: Contractual expenses includes \$10.0 for printing an extra page in the PFD Booklet and \$5.0 for data chargeback costs. Source of funds would be an RSA from the Department of Administration.

Prepared By: Thomas C. Williams *Thomas C. Williams* Phone: 465-2323
Division: Permanent Fund Dividend Division Date: March 27, 1991

Approved by Commissioner: Lee E. Fisher *Lee E. Fisher* Date: _____
Agency: Revenue

Distribution (by preparer): Legislative Finance, Legislative Sponsor, Requestor, OMB, & Impacted Agency(ies).

page 1 of 1

FISCAL NOTE

BILL NO. SB 8

STATE OF ALASKA
1991 LEGISLATIVE SESSION

Revision Date: _____
Title: An Act amending and making effective an Annuity Program.

Department Affected: Administration
BRU: Retirement and Benefits

Sponsor: Kertulla
Requestor: _____

Component: Retirement and Benefits
COMPONENT SERIAL NO. 64

Expenditures/Revenues: (Thousands of Dollars)

OPERATING	FY92	FY93	FY94	FY95	FY96	FY97
PERSONAL SERVICES	403.3	415.4	427.9	440.7	453.9	467.5
TRAVEL	50.0	25.0	25.0	25.0	25.0	25.0
CONTRACTUAL	1,174.6	1,119.6	1,119.6	1,119.6	1,119.6	1,119.6
SUPPLIES	52.5	60.5	70.5	80.5	90.5	100.5
EQUIPMENT	144.1	0	0	0	0	0
LAND & STRUCTURES	0	0	0	0	0	0
GRANTS, CLAIMS	0	0	0	0	0	0
MISCELLANEOUS	0	0	0	0	0	0
TOTAL OPERATING	1,824.5	1,620.5	1,643.0	1,665.8	1,689.0	1,712.6

CAPITAL	0	0	0	0	0	0
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REVENUE	0	0	0	0	0	0
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FUNDING: (Thousands of dollars)

GENERAL FUND	1,824.5	1,620.5	1,643.0	1,665.8	1,689.0	1,712.6
FEDERAL FUNDS	0	0	0	0	0	0
OTHER	0	0	0	0	0	0
TOTAL	1,824.5	1,620.5	1,643.0	1,665.8	1,689.0	1,712.6

POSITIONS

FULL-TIME:	8	8	8	8	8	8
PART-TIME:	0	0	0	0	0	0
TEMPORARY:	0	0	0	0	0	0

Estimate of current year impact: \$1,824.5 general fund

ANALYSIS: (attach a separate page if necessary.)
See attached for a detailed analysis

Prepared By: Gary Bader *Gary M Bader*
Division: Retirement and Benefits

Phone: 465-4460
Date: 4/3/91

Approved by Commissioner: Millett Keller *Millett Keller*
Agency: Department of Administration

Date: 4/3/91

Distribution (by preparer): Legislative Finance, Legislative Sponsor, Requestor, OMB & Impacted Agency(ies).

Fiscal Note - **DIA** (BENEFITS)

Senate Bill 8
Fiscal note Analysis
Prepared by Division of Retirement & Benefits
Department of Administration
March 29, 1991

Analysis: The cost of the annuity program is anticipated to be borne entirely by general fund (GF) appropriations. This fiscal note assumes that approximately 5% of the permanent fund dividend recipients (25,000) will participate in the annuity program.

Eight full-time positions will be needed to administer this program on a continuing basis. Even though we are proposing to contract with a private record keeper, eliminating the need for a large staff, this bill requires extensive manual effort to interface with the contractor. Personnel will handle counseling, address and beneficiary changes, account maintenance, and cash contributions.

Travel in FY 92 is needed to explain the program and answer questions at several locations throughout the state. In subsequent years, there will continue to be the need for rural education and counseling.

There are annual contractual needs for the operation of the annuity program as well as contract with the annuity record keeper. These ongoing contractual needs are explained below. The system will be highly automated to reduce the need for a larger staff. An analyst/programmer V will coordinate D.P. activities.

On-going office supply needs will include microfilming supplies, computer paper stock, annual statements of account and 1099's. In FY 92, there will also be a one time need for office equipment and the purchase of a microfilm reader and reader for file maintenance.

The total estimated administrative cost to the division by fiscal year is as follows:

FY 92 FY 93

PERSONAL SERVICES

1 Retirement System Manager	\$ 78.7		
1 Retirement Specialist I/II	50.5		
1 Retirement Technician I/II	40.9		
1 Accountant II	50.5		
1 Accounting Technician I	40.9		
1 Clerk-Typist III	34.0		
1 Accounting Clerk III	36.8		
1 Analyst/Programmer V	<u>70.0</u>		
Total Personal Services Cost.....		\$403.3	
FY 93 Personal Services w/3% increase			\$415.4

TRAVEL

FY 92 - 20 trips to various locations throughout the state for public meetings to explain the program.

FY 93 and after - trips to various locations throughout the state for annual enrollment counselling.

Total Travel cost.....		50.0	25.0
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CONTRACTUAL

	<u>FY 92</u>	<u>FY 93</u>	
CPU costs	20.0		
Computer tapes	10.0		
Disk space costs	<u>20.0</u>		
Total DP resource	\$50.0	\$50.0	
Record Keeping Contractor			
25,000 accts. @ \$35.00	875.0	875.0	
Information Blitz,			
TV, and Radio	85.0	35.0	
RSA to PFD division	15.0	15.0	
Postage: Information and			
warrants	50.0	50.0	
Audits	15.0	15.0	
Actuarial Consulting	15.0	10.0	
Centrex charges (8 lines), long			
distance WATS line	30.8	30.8	
Floor space (1,000 square feet at			
2.25/mo)	<u>38.8</u>	<u>38.8</u>	
Total Contractual cost.....		1,174.6	1,119.6

		<u>FY 92</u>	<u>FY 93</u>
SUPPLIES			
		<u>FY 92</u>	<u>FY 93</u>
	Office supplies, calculators	\$ 4.0	\$ 2.0
	Microfilming supplies	3.5	3.5
	Paper stock	40.0	50.0
	Statement of Account	<u>5.0</u>	<u>5.0</u>
	Total Supplies cost	52.5	60.5
 EQUIPMENT			
	8 Work stations	36.8	
	8 Chairs	2.4	
	8 PCs and other office equipment	40.0	
	Other office equipment (Dictaphone, calculators, etc.)	10.0	
	1 Printer	4.5	
	1 Microfilmer and reader	45.0	
	2 File cabinets	.6	
	8 Phones (600/instrument)	4.8	
	Total Equipment cost	<u>144.1</u>	<u>-0-</u>
	 TOTAL Operations Cost	 <u>\$1824.5</u>	 <u>\$1,620.5</u>

The continuing personal services costs is estimated to increase at 3% per year. The costs of administration of this system is anticipated as general funds realized from the offsetting savings realized from declining Longevity Bonus payments. Funding is anticipated from general fund appropriations.

FISCAL NOTE

STATE OF ALASKA
1991 LEGISLATIVE SESSION

BILL NO. SB 8

Revision Date: _____

Department Affected: Administration

Title: An Act amending and making effective an annuity program and amendments to the longevity bonus program

BRU: Division of Pioneers' Benefits

Sponsor: Senator Kerttula

Component: Longevity Bonus Program

Requestor: Senator Kerttula

COMPONENT SERIAL NO.

2	6		
2	7		

Expenditures/Revenues: (Thousands of Dollars)

OPERATING	FY 92	FY 93	FY 94	FY 95	FY 96	FY 97
PERSONAL SERVICES	0	0	0	0	0	0
TRAVEL	0	0	0	0	0	0
CONTRACTUAL	106.0	0	0	0	0	0
SUPPLIES	0	0	0	0	0	0
EQUIPMENT	0	0	0	0	0	0
LAND & STRUCTURES	0	0	0	0	0	0
GRANTS, CLAIMS	(0)	(91.5)	(754.6)	(2,091.5)	(4,100.2)	(6,989.7)
MISCELLANEOUS	0	0	0	0	0	0
TOTAL OPERATING	106.0	(91.5)	(754.6)	(2,091.5)	(4,100.2)	(6,989.7)

CAPITAL	0	0	0	0	0	0
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REVENUE	0	0	0	0	0	0
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FUNDING: (Thousands of Dollars)

GENERAL FUND	106.0	(91.5)	(754.6)	(2,091.5)	(4,100.2)	(6,989.7)
FEDERAL FUNDS	0	0	0	0	0	0
OTHER	0	0	0	0	0	0
TOTAL	106.0	(91.5)	(754.6)	(2,091.5)	(4,100.2)	(6,989.7)

POSITIONS:

FULL-TIME	0	0	0	0	0	0
PART-TIME	0	0	0	0	0	0
TEMPORARY	0	0	0	0	0	0

Estimate of current year impact: 0

ANALYSIS: (Attach a separate page if necessary.)

Impact for FY 91 is zero. This fiscal note assumes there would be an amendment to the computer program contract (to modify the longevity bonus system to print and account for multiple checks) and computer services support. Estimated cost is \$89.0. Estimated cost for mailing and printing is \$17.0.

Prepared by: Barbara Bathony *B. Bathony*

Phone: 465-4400

Division: Pioneers' Benefits

Date: April 1, 1991

Approved by Commissioner: Millett Keller *Millett Keller*

Date: 4/3/91

Agency: Administration

Distribution (by preparer): Legislative Finance, Legislative Sponsor, Requestor, OMB, & Impacted Agency(ies).

FISCAL NOTE - (L. BONUS)

Fiscal Note
SB 8
April 1, 1991

Projected annual savings under this proposal are tenuous because they depend upon a number of variables that cannot be predicted accurately. These projections were prepared as a joint project of the Legislative Research Agency and the Alaska Longevity Bonus program. A brief discussion of some of the more important assumptions and variables follows.

The Bonus amount for those turning 65 after January 1, 1993, is \$250 less than the annuity payment for those who turn 65 in the current year. The annuity payment depends upon:

- Permanent Fund Dividends—we use projections provided by the Permanent Fund Corporation;
- the interest rate at which earnings accrue and the interest rate used to determine an annuity—we used 9 percent as a reasonable estimate in both cases provided by Legislative Research;
- the life expectancy of a 65 year-old—we used figures provided by the Alaska Department of Labor; and
- the frequency of bonus adjustments—we assumed that bonuses would be adjusted at the beginning of each fiscal year and remain fixed throughout the year.

The number of recipients who receive \$250 per month was determined by applying mortality and migration figures—supplied by the Alaska Department of Labor—to the projected number of recipients who will be on the program prior to 1992.

The number of recipients who receive reduced bonuses was determined by applying population, mortality and migration figures to the current number of recipients in order to determine the number of new applicants in each year. Migration and mortality figures were then applied to new applicants in order to determine the number of recipients who will receive reduced bonuses in each year.

Caveats

Projections exclude the cost of administering an annuity program. The assumption is that this agency's involvement with the annuity portion of the program would be limited to being informed of the amount by which bonus warrants should be reduced. Expected costs of modifying the program in order to pay amounts other than a fixed \$250 are included in the FY 92 contractual line.

Projections exclude the savings that would occur under the "hold harmless" provisions of AS 47.45.122. Those costs would be reflected in this fiscal note only if the legislature appropriates hold harmless funds to this agency for subsequent transfer to the Department of Health and Social Services.

Projections exclude savings that might occur if the number of recipients declines as the program becomes less financially attractive to participants and potential participants.

Contractual costs are: Explaining program to 22,000 recipients, 2 mailings plus printing of information.

2 mailings	\$ 12,000
printing	5,000
software program revision	<u>89,000</u>
TOTAL	\$106,000

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Longevity Bonus Program

SB 8
April 1, 1991

1	2	3	4	5	6	7	8	9	10	11
Fiscal Year	Qualified Recipients	Continuation Of Present Program	Grandfathered Recipients	New Recipients	Annuity	Longevity Bonus Payments	New Recipients	Grandfathered Recipients	SB 8 Cost	Annual Savings
1992	22,628	\$67,884,000	22,628	0	\$0.00	\$250.00	\$0	\$67,884,000	\$67,884,000	\$0
1993	23,782	\$71,346,000	22,950	832	\$9.16	\$240.84	\$2,404,547	\$68,850,000	\$71,254,547	\$91,453
1994	24,936	\$74,808,000	21,609	3,327	\$18.90	\$231.10	\$9,226,436	\$64,827,000	\$74,053,436	\$754,564
1995	26,090	\$78,270,000	20,286	5,804	\$30.03	\$219.97	\$15,320,471	\$60,858,000	\$76,178,471	\$2,091,529
1996	27,164	\$81,492,000	19,164	8,000	\$42.71	\$207.29	\$19,899,840	\$57,492,000	\$77,391,840	\$4,100,160
1997	28,118	\$84,354,000	17,926	10,192	\$57.15	\$192.85	\$23,586,326	\$53,778,000	\$77,364,326	\$6,989,674

Division of Pioneers' Benefits
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Official Business

Alaska State Legislature

P.O. Box V
State Capitol
Juneau, Alaska 99811

MEMORANDUM

TO: Senator Pat Rodey, Chairman
Senate State Affairs Committee

FROM: Senator Jay Kerttuia

SUBJ: Senate Bill 8 --
Annuity

DATE: March 7, 1991

I would appreciate it if you would schedule Senate Bill 8 which would establish an annuity for Alaskans.

Under Senate Bill 8, Alaska seniors who are currently receiving the longevity bonus will continue to be eligible \$250.00 per month for the rest of their life. Seniors who turn 65 between now and January 1, 1992 will also be eligible for the \$250.00 per month annuity.

Senate Bill 8 will put into place an annuity program that people turning 65 after January 1, 1992 will have the option to join. If a person contributes 100% of his or her permanent fund dividends (or the cash equivalent) into the annuity program, that person will be assured of receiving no less than \$250.00 a month for life. Most Alaskans who choose to participate in the annuity program will receive much more than the \$250.00 minimum.

Under Senate Bill 8, the longevity bonus program will be completely phased out by the year 2005. By the year 2010, Senate Bill 8 will have cost the state \$753.9 million less than the longevity bonus program in its current form.

I believe that the annuity is the best way to ensure that Alaska seniors can continue to rely on a monthly check of at least \$250.00. The annuity will enable us to legally secure the Alaska longevity bonus program. The annuity approach was overwhelmingly approved by Alaska voters in 1986.

I urge favorable consideration of Senate Bill 8. The longevity bonus program was started in 1972, before the big oil years. In an era of declining oil revenues, it is appropriate to put the program into a form that can always be relied on by Alaskans.

I have attached tables which lay out the bill's fiscal impact.

JK:kh

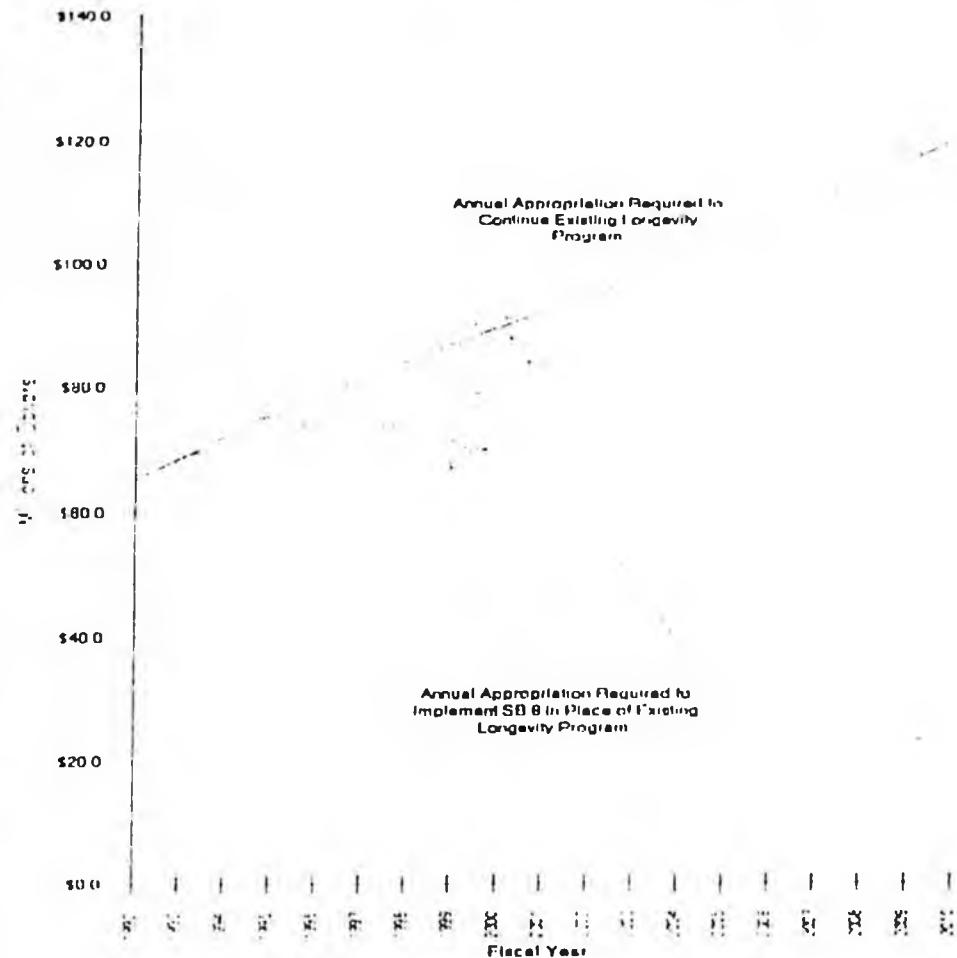
Alaska Longevity Bonus Program and Senate Bill 8



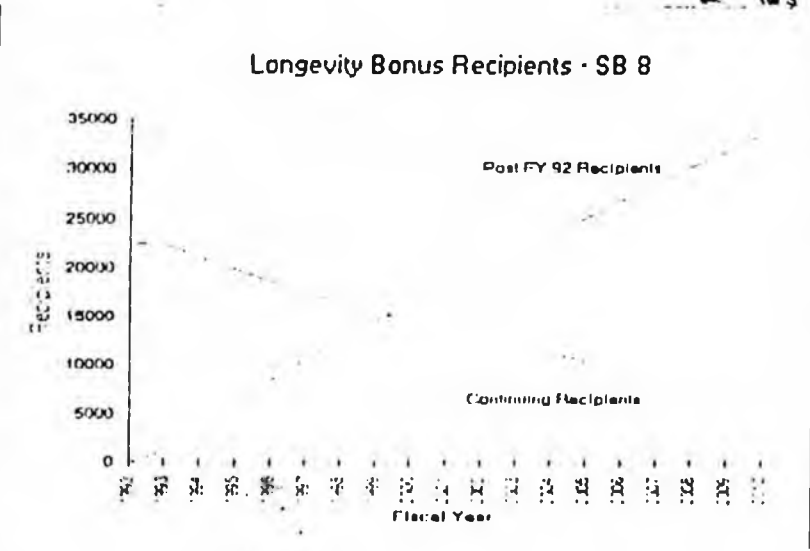
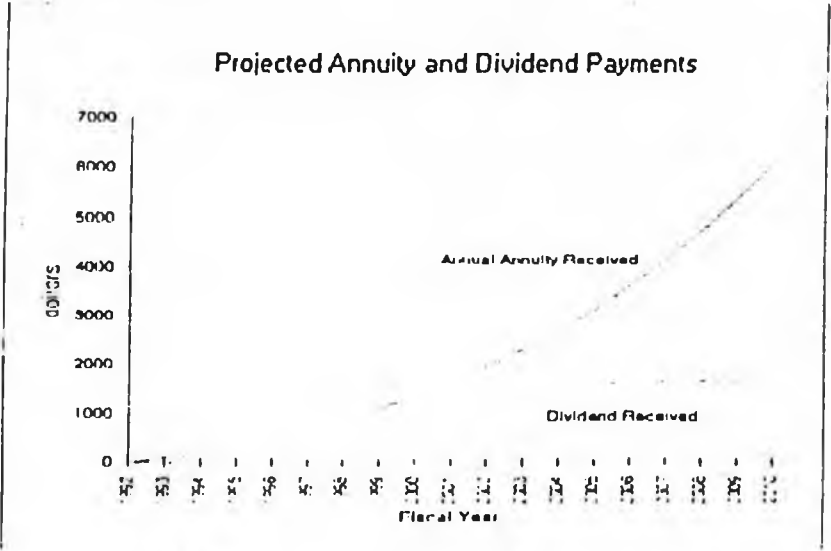
General Fund Costs/Savings				
Fiscal Year	Cost of Current Program	Cost of SB 8 Program	Annual Savings \$M B	Cumulative Savings \$M B
1992	\$85.4	\$85.4	\$0.0	\$0.0
1993	88.8	88.7	0.1	0.1
1994	72.1	71.3	0.8	1.0
1995	76.6	73.3	2.2	3.1
1996	78.6	74.3	4.2	7.3
1997	81.4	74.3	7.0	14.4
1998	84.2	73.4	10.8	26.2
1999	87.0	71.3	15.7	40.8
2000	89.8	67.9	21.8	62.6
2001	92.3	63.2	29.0	91.6
2002	95.0	57.0	38.0	129.6
2003	97.9	49.1	48.8	178.3
2004	100.8	39.1	61.7	239.9
2005	103.8	30.8	73.3	313.2
2006	106.8	28.7	78.2	391.4
2007	110.2	27.0	83.2	474.6
2008	113.6	25.3	88.1	562.8
2009	118.0	23.8	93.1	655.8
2010	120.4	22.3	98.0	753.8

- Note:
- *All Dollar Amounts are in Millions of Nominal Dollars.
 - *Implied migration rates are from Alaska Department of Labor.
 - *Implied mortality rates from Alaska unisex life tables for average age (74/75) of 65
 - *Annully Interest Rate 9%
 - *No Annual Annuity Service Charge

Cost of Current and SB 8 Longevity Bonus Programs



Alaska Longevity Bonus Program and Senate Bill 8



Fiscal Year	Qualified Recipients	Post FY 92 Recipients	Total Recipients	Dividend Received	Annual Annuity	Monthly Annuity	Post FY 92 Bonus	Total Monthly Annuity + Dividend
1992	22628	0	22628	\$000.00	\$0.00	\$0.00	\$260.00	\$260.00
1993	22616	1288	23782	846.71	108.87	9.16	240.84	260.00
1994	21140	3795	24936	894.58	226.84	18.90	231.10	260.00
1995	19950	6240	26090	948.73	380.39	30.03	219.97	260.00
1996	18038	8618	27154	1006.18	512.67	42.71	207.29	260.00
1997	17500	10828	28129	1076.53	666.82	57.16	192.85	260.00
1998	16432	12873	28105	1147.74	883.70	73.64	176.36	260.00
1999	16429	14852	30081	1211.08	1108.39	82.37	167.63	260.00
2000	14487	16480	30987	1278.16	1381.31	113.44	138.68	260.00
2001	13603	18294	31896	1338.29	1645.23	137.10	112.90	250.00
2002	12772	20081	32853	1404.31	1962.68	163.65	86.45	250.00
2003	11883	21847	33840	1470.77	2318.80	193.07	66.83	250.00
2004	11261	23594	34854	1537.86	2711.32	225.94	24.06	250.00
2005	10573	25327	35900	1605.48	3148.84	262.48	0.00	202.48
2006	9928	27060	36977	1673.64	3638.37	303.03	0.00	303.03
2007	9322	28785	38086	1873.64	4175.31	347.94	0.00	347.94
2008	8753	30478	39229	1873.64	4782.78	398.80	0.00	398.80
2009	8218	32187	40406	1873.64	5403.08	450.28	0.00	460.28
2010	7717	33901	41617	1873.64	6101.03	508.42	0.00	508.42

1991 LEGISLATION
POSITION PAPER
DEPARTMENT OF ADMINISTRATION

Division Pioneers' Benefits Bill Number S38

Bill Title An Act amending and making effective an annuity program and amendments to the longevity bonus program

Position Statement: Explain briefly what bill does, its impacts and Department's position, i.e. a) support, b) do not support, c) neutral or d) oppose.

The Department of Administration supports this bill.

APPROVED:

Director Barbara Bathony Division Pioneers' Benefits
print name

Signature B. Bathony Date 4-1-91

Commissioner Millett Keller

Signature Millett Keller Date 4/3/91

(For more information, call Barbara Pritchett 465-2200)

Rev. 1/23/91

1991 LEGISLATION
POSITION PAPER
DEPARTMENT OF ADMINISTRATION

Division Retirement and Benefits Bill Number SB 08

Bill Title An act establishing the State Annuity Program

Position Statement: Explain briefly what bill does, its impacts and Departments' position,
i.e. a) support, b) do not support, c) neutral or d) oppose.

This bill will establish the State Annuity System which will manage and invest member contributions from permanent fund dividends. It will be located in the Department of Administration.

We support this bill with amendments which would define the assets of this fund as separate program receipts, not treated as general funds. There are several questions which are unresolved and whose answers will dramatically impact the number of participants in the program. These questions deal with to what degree the contributions to and earnings of this fund are federal tax exempt.

APPROVED:

Director Garv M. Bader Division Retirement and Benefits

Signature Garv M. Bader Date 4/2/91

Commissioner Millett Keller

Signature Millett Keller Date 4/3/91

(For more information, call Barbara Pritchett 465-2200)

Rev. 1/91



STATE OF ALASKA
OFFICE OF THE GOVERNOR
BILL ANALYSIS

DEPARTMENT ADMINISTRATION	DIVISION RETIREMENT AND BENEFITS	BILL NUMBER SB 8	SPONSOR Kertula
SHORT TITLE OF BILL An act establishing a State Annuity Program			
DEPARTMENT POSITION Support			
PREPARED BY Gary M. Bader	DATE 4/2/91	COMMISSIONER'S SIGNATURE <i>[Signature]</i>	DATE 4/3/91

SUMMARY

OTHER AGENCIES AFFECTED BY BILL Department of Revenue	CONSTITUENT GROUP(S) AFFECTED BY BILL State longevity Bonus recipients
ORGANIZATIONAL SUPPORT FOR BILL Unknown	ORGANIZATIONAL OPPOSITION TO BILL Unknown

FISCAL IMPACT: NONE FISCAL NOTE ATTACHED

BACKGROUND/LEGISLATIVE INTENT

ANALYSIS OF BILL/PROGRAM EFFECTS

This bill will establish the State Annuity System whose purpose will be manage and invest member contributions through permanent fund dividends. It will be located in the Department of Administration which will receive contributions and pay annuities in lieu of longevity bonus payments.

AMENDMENTS PROPOSED

None

PLEASE ATTACH A SEPARATE SHEET FOR ADDITIONAL COMMENTS OR ANALYSIS

7-LS0080ND.1
Cook
03/19/91

A M E N D M E N T

OFFERED IN THE SENATE

BY SENATOR KERTTULA

TO: SB 8

Page 4, line 3:

Delete "December 31, 1992"

Insert "December 31, 1991"

Page 4, line 7:

Delete "December 31, 1993"

Insert "December 31, 1992"

Page 4, line 12:

Delete "December 31, 1992"

Insert "December 31, 1991"

Page 4, line 13:

Delete "1992"

Insert "1991"